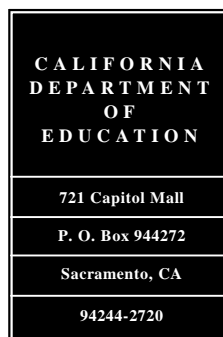




DELAINE EASTIN
State Superintendent of Public Instruction



January 14, 2000

To: County and District Superintendents
County and District Chief Business Officers

From: Janet Sterling, Director
School Fiscal Services Division

Subject: Revisions to the Criteria and Standards for Budgets and Interim Reports

The State Board of Education (SBE) recently adopted revised criteria and standards for budget and interim reports that apply to both school districts and county offices of education, effective for 2000-2001 and subsequent fiscal years.

The revised criteria and standards are the result of nearly a year of review. Although the original criteria and standards were adopted by the SBE almost ten years ago, with the exception of minor changes to reflect new statutory requirements, they had not been modified or revised since then. Because of the significant statutory changes related to special education funding, we found it necessary to revise the special education criteria, and we viewed this as an excellent opportunity to reassess and improve the overall usefulness of the criteria and standards as a budget development and monitoring tool for ensuring the fiscal health of local educational agencies.

The first part of our review process was to conduct a survey of all county offices of education and school districts, asking how the criteria and standards could be improved. Once the survey was completed, we convened a committee that included representation from school districts, county offices of education, various interested educational groups, and several State agencies. Rather than focusing only on changes to the special education portion of the criteria and standards, the committee reviewed all of the criteria and standards applicable to school districts. While this initial review focused on school district criteria and standards, changes were made to the criteria and standards used for reviewing county office of education budget and interim reports, where appropriate. (We will be further reviewing and analyzing the county office criteria and standards in the next year.)

The committee completed its work in the fall of 1999 and the revised criteria and standards were approved by the SBE in October. The changes to the criteria and standards are now being incorporated into the financial reporting software for the 2000-2001 fiscal year. We are also in the process of revising the regulations for the criteria and standards that are in Title 5 of the *California Code of Regulations* to reflect the changes.

Generally, the review processes for both budget and interim reports continue the original concept of a two-tiered review, whereby every school district and county office of education completes a first tier review. A second tier review is completed when one of the standards of the first tier review is not met or when the district or county is requested to do so by its reviewing agency. For districts or county offices of education using the dual budget adoption process, a second tier review is not required for the July 1 budget adoption, but is required if triggered by a deviation from the standards at the September 8 budget adoption.

The following summary highlights the significant changes to the criteria and standards and related forms that will go into effect in 2000-2001:

- The “Operating Deficit” criterion has been renamed to “Deficit Spending” and has been redefined to include Other Financing Sources and Uses (including inter-fund transfers). Previously, the criterion was based only on revenues and expenditures.
- The previous special education criterion was eliminated. In its place is a supplemental item in the first tier review, which requires an explanation if budgeted special education revenues change by more than 5% from the prior year.
- Previously, if negotiations with the certificated staff were not finalized at budget adoption, upon settlement, the district was required to submit a cost analysis detailing the impact of the settlement on the operating budget to the reviewing agency. Now, the first tier has been expanded to require the governing board to certify to the validity of this analysis and to include negotiations with classified staff in the analysis. The county superintendent must review and provide written comments on the analysis to the president of the governing board and the district superintendent. The public disclosure documents prepared in compliance with *Government Code* Section 3547.5 may continue to be used in lieu of the cost analysis.
- Restricted and unrestricted detail is now required in the interim General Fund reports. Previously, only the summary report (which combined restricted and unrestricted detail) was required, although the reviewing agency had the discretion to require or not require the detailed reports.
- Multiyear projections for the current and two subsequent fiscal years are now required along with interim reports. An optional multiyear projection form will be included in the software; LEAs may use this form or may choose to use other multiyear projection software upon agreement of their reviewing agency.
- Interim reports will now be required for any fund that is projected to end with a negative fund balance. The interim financial software will be modified to accommodate this reporting for other funds.
- Several items that were previously optional or included in the second tier review are now required in the first tier review as supplemental information. They are as follows:
 - 1) disclosures must be made for temporary borrowings between funds, for the status of capital projects, and for liabilities for retiree health benefits. (Also, the date of the actuarial report used as a basis for determining the liability for retiree health benefits must be disclosed);
 - 2) an explanation must be provided if there is a continuing decline in fund balance over the three prior years;
 - 3) an explanation must be provided regarding the future source of funding for significant ongoing costs that are currently funded with one-time resources; and
 - 4) an explanation must be provided in the interim reports if contributions to restricted programs have changed by more than five percent since budget adoption.

As stated previously, we will be reviewing the county office of education criteria and standards in the next year. We will also continue our analysis of the appropriate treatment of “pass-through” funds. The issue of “pass-through” funds (primarily relating to special education) was brought up during our analysis of the district criteria and standards. The question of whether funds allocated to a fiscal agent or an administrative unit for pass-through may be excluded from the reserve calculation remains unresolved; however, we are hoping to resolve this issue and incorporate any changes into the criteria and standards for 2001-2002.

The revised criteria and standards for school district budgets and interim reports are enclosed. (County offices of education will also receive the criteria and standards for county office of education budgets and interim reports.) We encourage you to review the criteria and standards and keep them available as a reference for future use.

If you have any additional questions or concerns regarding the revisions to the criteria and standards, please contact our Office of Financial Accountability and Information Services at (916) 322-1770.

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Enclosures